SaskTel

Financial Statements of

DIRECTWEST PUBLISHING PARTNERSHIP

December 31, 2001

PRICEWATERHOUSECOOPERS

102-04077/

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January 15, 2002

Auditors' Report

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have audited the statement of financial position of **DirectWest Publishing Partnership** as at December 31, 2001 and the statements of operations, partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the partnership as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

DirectWest Publishing Partnership

STATEMENT OF OPERATIONS

For the year ended December 31

	2001	2000
	(Thousands of dollars)	
Gross revenue	$ 31,279	$ 30,734
Cost of sales	7,641	6,915
Gross profit	23,638	23,819
Operating expenses	22,004	22,147
Income from operations	1,634	1,672
Net interest income	9	7
Net income	$ 1,643	$ 1,679

See accompanying notes

STATEMENT OF PARTNERS' EQUITY

For the year ended December 31

	2001	2000
	(Thousands of dollars)	
Balance, beginning of year	$ 8,109	$ 7,941
Net income	1,643	1,679
	9,752	9,620
Partners' withdrawals	(1,479)	(1,511)
Balance, end of year	$ 8,273	$ 8,109

See accompanying notes

DirectWest Publishing Partnership

STATEMENT OF FINANCIAL POSITION

As at December 31

	2001	2000
	(Thousands of dollars)	
ASSETS		
Current assets		
Notes receivable from Holdco *[note 5]*	$ 1,173	$ 872
Accounts receivable	3,351	2,840
Inventory	226	89
Prepaid publishing costs	5,475	5,510
Prepaid expenses	44	263
	10,269	9,574
Capital assets *[note 3]*	3,284	3,478
Goodwill *[note 4]*	232	511
	$ 13,785	$ 13,563
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Bank indebtedness	$ 239	$ 311
Accounts payable	1,612	1,341
Partners' withdrawals payable	332	358
Deferred revenue	2,506	2,423
Current portion of long-term debt	211	198
	4,900	4,631
Long-term debt *[note 6]*	612	823
	5,512	5,454
Partners' equity	8,273	8,109
	$ 13,785	$ 13,563

See accompanying notes

On behalf of the Partners:

3364381 Canada Ltd.

3339807 Canada Ltd.

DirectWest Publishing Partnership

STATEMENT OF CASH FLOWS

For the year ended December 31

	2001	2000
	(Thousands of dollars)	
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	**$ 1,643**	$ 1,679
Charges not involving cash		
Depreciation and amortization	**1,205**	1,175
Net change in non-cash working capital balances	**(324)**	(1,217)
	2,524	1,637
INVESTING ACTIVITIES		
Capital expenditures	**(749)**	(646)
Business acquisition	**—**	(422)
	(749)	(1,068)
FINANCING ACTIVITIES		
Proceeds from long-term debt *[note 6]*	**—**	1,100
Repayments of long-term debt *[note 6]*	**(198)**	(79)
Partners' withdrawals	**(1,505)**	(1,789)
	(1,703)	(768)
Increase (decrease) in cash during the year	**72**	(199)
Cash and cash equivalents, beginning of year	**(311)**	(112)
Cash and cash equivalents, end of year	**$ (239)**	$ (311)
Comprised of bank indebtedness	**$ (239)**	$ (311)
Interest paid	**$ 59**	$ 31

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

Note 1 -- Organization

DirectWest Publishing Partnership (the Partnership) markets and supplies print and internet advertising and marketing solutions for Saskatchewan and agricultural businesses. The Partnership's main product lines include the Saskatchewan Telecommunications (SaskTel) telephone directories, Warren's Farm & Ranch directory as well as an internet portal at mysask.com.

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the partners.

The financial results of the Partnership are included in the consolidated financial statements of Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 -- Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Revenue recognition

Revenue from the sale of print and internet advertising is recognized over the term of the contract.

Prepaid publishing costs

The Partnership defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Capital assets

Capital assets are recorded at cost. Normal repair and maintenance expenditures are expensed as incurred.

Depreciation is provided by the straight-line method over the following periods:

Amdocs software	7 years
Software	1 - 2 years
Office furniture and equipment	10 years
Leasehold improvements	Lease term (7 years)
Computer equipment	2 - 3 years

One-half year's depreciation is claimed in the year of acquisition. Gain or loss on the disposal of individual assets is recognized in income in the year of disposal.

Goodwill

Goodwill is amortized on a straight-line basis over a maximum of twenty years. The carrying value of goodwill is reviewed annually by analyzing the financial performance of the related investment or by assessing its fair market value.

Note 2 -- Significant accounting policies (continued)

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 -- Capital assets

	2001	2000
	(Thousands of dollars)	
Computer hardware and software	$ 8,963	$ 8,422
Office furniture, equipment and leaseholds	1,713	1,701
	10,676	10,123
Accumulated depreciation	(7,392)	(6,645)
	$ 3,284	$ 3,478

Depreciation expense relative to capital assets is included in the statement of operations as follows:

	2001	2000
	(Thousands of dollars)	
Cost of sales	$ 381	$ 180
Operating expenses	562	753
	$ 943	$ 933

NOTES TO FINANCIAL STATEMENTS

Note 4 -- Goodwill

	2001	2000
	(Thousands of dollars)	
Cost	$ 1,273	$ 1,273
Accumulated amortization	(1,041)	(762)
	$ 232	$ 511

Amortization expense of $279,000 for 2001 ($261,000 for 2000) is included in the statement of operations as operating expense.

Note 5 -- Notes receivable from Holdco

Certain intercompany transactions with Saskatchewan Telecommunications Holding Corporation (Holdco) are settled through intercompany notes rather than exchanging cash. Interest is applied to the balance of the note based on short-term investment rates or short-term borrowing rates available to Holdco. The amount receivable from Holdco of $1,173,000 represents the net amount of notes issued at December 31, 2001 (2000 - $872,000).

Note 6 -- Long-term debt

In the prior year, an unsecured term loan totaling $1,100,000 was issued to DirectWest Publishing Partnership by Holdco. This loan is repayable in monthly installments of $21,495 including principal and interest at the rate of 6.44% per annum maturing July 19, 2005. Principal repayments over the next four years are as follows:

	(Thousands of dollars)
2002	$ 211
2003	225
2004	240
2005	147
	$ 823

Note 7 – Financial instruments

The carrying amounts for accounts receivable, bank indebtedness and accounts payable approximate fair value due to the short-term nature of these instruments.

The fair value of long-term debt approximates its carrying value due to current incremental borrowing rates for similar borrowing arrangements.

Note 8 -- Related party transactions

NOTES TO FINANCIAL STATEMENTS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end, are as follows:

	2001	2000
	(Thousands of dollars)	
Sales	$ 2,372	$ 2,922
Purchases of goods and services	12,009	12,440
Accounts receivable	3,232	2,761
Accounts payable	83	106

In addition, the Partnership pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 9 -- Commitments

The Partnership is committed to operating leases for office premises in each of the next five years as follows:

	(Thousands of dollars)
2002	$ 128
2003	128
2004	128
2005	128
2006	116

In addition, the Partnership has contracted to purchase approximately $1.4 million of newsprint during 2002.